

2005 Joint Strike Fighter Credits**3534**

Attach to your California tax return.

Name(s) as shown on return

Social security, California corporation, or
entity identification (ID) number

Secretary of State file number

FEIN

Part I Joint Strike Fighter Wage Credit See instructions before completing**Section A — Credit Computation****Qualified wages paid or incurred for 2005 tax year**

(a) Employee's name	(b) Employee's social security number	(c) 2005 tax year qualified wages	(d) 2005 tax year limitation column (c) x 10%	(e) Percentage of time as a qualified employee during the 2005 tax year.*	(f) Credit limitation maximum \$10,000 (column (e) percentage X \$10,000)	(g) Credit amount lesser of column (d) or (f)
1				%		

2 Add the amounts in column (g)**2****3** Credit carryover from prior year(s)**3****4** Total available credit. Add line 2 and line 3**4****5** Enter the amount of credit claimed on current year tax return. **Caution:** Your credit may be limited. See instructions**5****6** Credit carryover available for future years. Subtract line 5 from line 4**6**

*Divide number of months as a qualified employee for the tax year by 12. Enter as a percentage in column (e).

Section B — Credit Use and Carryover Periods. See instructions.**8-Year Carryover Period**

(a) Year	(b) Credit generated in current year	(c) Prior year(s) carryover amount	(d) Amount used in 2005	(e) Credit carryover to future years
1 2001				
2 2002				
3 2003				
4 2004				
5 2005				
6 Total				

Part II Joint Strike Fighter Property Credit See instructions before completing.**Section A — Credit Computation** See specific line instructions.

(a) Description of property	(b) Property leased? Yes/No	(c) Date placed in service (mo./yr.)	(d) Amount of California sales or use tax paid	(e) Cost of property Do not include sales or use tax paid	(f) Capitalized direct labor costs allocated to property	(g) Total costs – add column (e) and column (f)	(h) Mandatory adjustments
1							
2 Add the amounts in column (g) and column (h)						2	
3 Total tax year 2005 qualified costs. Subtract the amount on line 2, column (h) from line 2, column (g)						3	
4 Multiply line 3 by 10% (.10)						4	
5 Credit carryover from prior year(s)						5	
6 Total available credit. Add line 4 and line 5						6	
7 Enter the amount of credit claimed on current year tax return. Caution: Your credit may be limited. See instructions . . .						7	
8 Credit carryover available for future years. Subtract line 7 from line 6						8	

Section B — Credit Use and Carryover Periods. See instructions.**8-Year Carryover Period**

(a) Year	(b) Credit generated in current year	(c) Prior year(s) carryover amount	(d) Amount used in 2005	(e) Credit carryover to future years
1 2001				
2 2002				
3 2003				
4 2004				
5 2005				
6 Total				

Section C — Credit Recapture. See instructions.

(a) Property description	(b) Recapture code	(c) Credit recapture amount
1		
2 Total recapture amount. Add the amounts in column (c). See instructions		2

Instructions for Form FTB 3534

Joint Strike Fighter (JSF) Credits

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2005**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 2005. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information regarding California and federal law, please visit our Website at www.ftb.ca.gov and search for **conformity**.

Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

Note, the instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

Pass-Through Entities

For purposes of these instructions, the term "pass-through entity" refers to an S corporation, estate, trust, partnership, and limited liability company (LLC). References to "partnerships" include LLCs classified as partnerships.

A Purpose

Use form FTB 3534, Joint Strike Fighter Credits, to compute and claim Joint Strike Fighter (JSF) Credits for certain wages paid in connection with a contract to construct all or a portion of a JSF and for qualified costs paid or incurred by qualified taxpayers for acquiring, constructing, or reconstructing qualified property used to manufacture a product for ultimate use in a JSF.

S corporations, estates, trusts, and partnerships should complete form FTB 3534 to figure the amount of credit to pass through to shareholders, beneficiaries, partners, or members. Attach this form to Form 100S, Form 541, Form 565, or Form 568. Show the pass-through credit for each shareholder, beneficiary, partner, or member on Schedules K-1 (100S, 541, 565, or 568).

B Description

The JSF is the next-generation air combat strike aircraft developed and produced under the JSF Program. The JSF Credits provide for a wage and a property credit under both the Personal Income Tax Law (PITL) and the Corporation Tax Law (CTL). These credits apply to qualified taxpayers under initial contract or subcontract to manufacture property for ultimate use in a JSF. The credits are available for taxable years beginning on or after January 1, 2001, and before January 1, 2006. Any excess credit can be carried forward for up to eight years from the year in which the credits are incurred. **No credits are allowed unless the credit is reflected within the bid upon which the JSF contract or subcontract is based.**

C Joint Strike Fighter Program

The JSF program is a multiservice, multinational project to develop and produce the JSF.

D Qualified Taxpayer

A qualified taxpayer is any taxpayer under an initial contract or subcontract to manufacture property for ultimate use in a JSF.

For pass-through entities, the determination of a qualified taxpayer is made at the entity level and any credit passed through to the partners, members or shareholders is in accordance with their distributive share.

E Initial Contract or Subcontract

Initial contract shall mean the contract awarded by the United States government to a prime contractor for any phase of the JSF Program. Initial subcontract shall mean a contract between a prime contractor and any other contractor, or between two contractors where one of those contractors is under contract with the prime contractor, or where the prime contractor or a contractor under contract with the prime contractor has consented in writing to the contract.

F Product for Ultimate Use In A Joint Strike Fighter

Product for ultimate use in a JSF shall mean a product designed to be physically installed in or attached to a JSF and properly treated as inventory of the qualified taxpayer. The term shall not include any product that is not designed to form a physical part of the JSF.

G Bid

Bid shall mean a written bid or offer to perform a contract to produce a product for ultimate use in a JSF. The bid shall be submitted in a competitive process where the contract will be awarded to the lowest possible bidder or as otherwise indicated in the invitation to bid. Where the scope of work, request for proposal, or relationship of the parties is such that only a single party will be submitting a proposal or contract to construct a product for ultimate use in a JSF, the term bid shall include the proposal or contract ultimately executed.

H Credit Reflected Within The Bid

Credit reflected within the bid shall mean: (1) the bid that forms the basis of the contract or subcontract is reduced by the amount of the JSF Wage and/or Property Credit allowable, and (2) the amount of the JSF Wage or Property Credit allowable is included on the face of the bid or an attachment to the bid that forms the basis of the contract or subcontract.

I Limitations and Special Rules

The JSF Wage and Property Credits are not refundable.

S corporations may claim only 1/3 of the credit against the 1.5% entity-level tax (3.5% for financial S corporations). S corporations can pass through 100% of the credit to their shareholders according to their ownership interest(s). Partnerships must allocate the credit among the partners according to the partner's distributive share as determined in a written partnership agreement, R&TC Section 17039(e).

If a taxpayer owns an interest in a disregarded business entity, the amount of the credit that can be utilized is limited to the difference between the taxpayer's regular tax computed with the income of the disregarded entity, and the taxpayer's regular tax computed without the income of the disregarded entity. For more information on disregarded business entities, get Form 568, Limited Liability Company Tax Booklet.

This credit cannot reduce the minimum franchise tax (corporations and S corporations), annual tax (partnerships and QSubs), tentative minimum tax (corporations and individuals), alternative minimum tax (corporations and individuals), built-in-gains tax (S corporations), excess net passive income tax (S corporations), or LLC fee.

The cost basis of the qualified property for depreciation purposes is not reduced by the amount of the credit.

JSF Wage Credit and Other Credits (EZ, TTA, LAMBRA, and MEA)

Taxpayers operating a business establishment in an Enterprise Zone (EZ) may claim the EZ Hiring Credit and the JSF Wage Credit for the wages of the same employee. However, they cannot claim the JSF Wage Credit and the Targeted Tax Area Hiring Credit (TTAs), Local Agency Military Base Recovery Area Hiring Credit (LAMBRA), or the Manufacturing Enhancement Area Hiring Credit (MEAs).

JSF Property Credit and Other Credits (EZ, TTA, and LAMBRA)

Taxpayers operating a business establishment in a LAMBRA or in a TTA, cannot claim the LAMBRA or the TTA Sales or Use Tax Credit and the JSF Property Credit for the same property. Taxpayers may claim the LAMBRA Business Expense Deduction and the JSF Property Credit on the same property. Or taxpayers may claim the TTA Business Expense Deduction and the JSF Property Credit for the same property if the Standard Industrial Classification Code qualifications for the TTA are met. Qualified costs for purposes of computing the JSF Property Credit must be reduced by the amount of the LAMBRA or TTA Business Expense Deduction before computing the JSF Property Credit.

Taxpayers operating a business establishment in an EZ may claim the EZ Sales or Use Tax Credit and the JSF Property Credit for the same property. Taxpayers may also claim the EZ Business Expense Deduction on the same property. Qualified costs for purposes of computing the JSF Property Credit must be reduced by the amount of the EZ Business Expense Deduction and EZ Sales or Use Tax Credit before computing the JSF Property Credit.

For more information about:

- EZ tax incentives, get FTB 3805Z, Enterprise Zone Business Booklet;
- LAMBRA tax incentives, get FTB 3807, Local Agency Military Base Recovery Area Business Booklet;
- The MEA hiring credit, get FTB 3808, Manufacturing Enhancement Area Business Booklet; or
- TTA tax incentives, get FTB 3809, Targeted Tax Area Business Booklet.

Members of a Unitary or Combined Group

This credit cannot be allocated or otherwise transferred to another taxpayer, even if the other taxpayer is a member of a unitary or combined group or otherwise affiliated with the taxpayer that earned the credit.

Example: A corporation that generates a JSF Wage or Property Credit but has no tax liability cannot allocate the credit to another member of the same unitary group.

(a) Employee's name	(b) Employee's social security number	(c) 2005 tax year qualified wages	(d) 2005 tax year limitation column (c) x 10%	(e) Percentage of time as a qualified employee during the 2005 tax year *	(f) Credit limitation maximum \$10,000 column (e) percentage x \$10,000	(g) Credit amount lesser of column (d) or (f)
Employee A		80,000	8,000	25% (3 mos ÷ 12 mos)	2,500	2,500

The prorated credit limitation is \$2,500 (3 mos ÷ 12 mos) x \$10,000]. The credit is the lesser of the wage limitation (\$8,000), or the credit limitation (\$2,500).

*Divide number of months as a qualified employee for the tax year by 12. Enter as a percentage in column (e).

C Qualified Employee

A qualified employee is an individual whose services are performed in California and whose services are at least 90% directly related to the qualified taxpayer's contract or subcontract to manufacture property for ultimate use in a JSF.

D Qualified Wages

Qualified wages are that portion of wages paid or incurred by the qualified taxpayer during the taxable year to qualified employees that are direct costs as defined in IRC Section 263A, allocable to property manufactured in California for ultimate use in a JSF.

E Manufacture

Manufacture shall mean the process of developing, converting, or conditioning stock in trade, or other property includible in the inventory of the qualified taxpayer for ultimate use in a JSF. The term manufacture shall include the design, engineering, and testing activities necessary to develop the property.

Specific Instructions

Part I — JSF Wage Credit

The JSF Wage Credit is available to qualified taxpayers for a percentage of qualified wages paid or incurred on or after January 1, 2001, and before January 1, 2006, to qualified employees for services performed in California to develop and manufacture inventory property designed to be physically installed in or attached to a JSF.

A Amount of Credit

A qualified taxpayer shall be allowed a credit for qualified wages paid or incurred during the tax year as follows:

50%	For tax years beginning on or after 01/01/2001, and before 01/01/2002.
40%	For tax years beginning on or after 01/01/2002, and before 01/01/2003.
30%	For tax years beginning on or after 01/01/2003, and before 01/01/2004.
20%	For tax years beginning on or after 01/01/2004, and before 01/01/2005.
10%	For tax years beginning on or after 01/01/2005, and before 01/01/2006.

B Credit Limitation

The credit is limited to a maximum of \$10,000 per taxable year, per qualified employee. For employees that work only part of the taxable year, the credit limitation is prorated by the number of months the employee is a qualified employee.

Example: The employee of the taxpayer is a qualified employee for three months out of the year. The total wages earned during the year was \$80,000. The credit limitation would be computed as follows:

F Credit Carryover and Limitation

Any part of the JSF Wage Credit exceeding the tax liability in the taxable year may generally be carried over for the maximum of eight years, or until exhausted, whichever occurs first. In no event can the credit be carried back and applied against a prior year's tax.

Part I — JSF Wage Credit Line Instructions

Section A Credit Computation

Line 1, column (a) – Enter the name of each qualified employee. Attach additional schedule(s) if necessary.

Note: If you are an employee, you do not qualify for the JSF wage credit. Only employers may claim the credit.

Line 1, column (b) – Enter the social security number (SSN) for each qualified employee.

Line 1, column (c) – Enter the qualified wages paid or incurred during the tax year for each employee listed in column (a).

Line 1, column (d) – Multiply column (c) by the wage limitation for tax year 2005, (10%).

Line 1, column (e) – Divide the number of months as a qualified employee during the tax year by 12. Enter the percentage.

Line 1, column (f) – Multiply \$10,000 by the percentage in column (e). The maximum credit limitation allowed is \$10,000.

Line 1, column (g) – Enter the lesser of column (d) or (f).

Line 2 – Add the credit amounts in column (g). Use credit code number **215** when you claim the JSF Wage Credit.

Line 3 – Enter the total available credit carryover from prior year(s).

Line 5 – The amount of this credit that you can claim on your tax return may be limited further by the alternative minimum tax. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. Use credit code number **215** when you claim this credit.

Credits generated by a pass-through entity must be determined at the entity level. Once the amount of the total credit has been determined by the pass-through entity, it is then passed through to the shareholders, beneficiaries, partners, or members and claimed on each recipient's individual or entity tax return.

Section B Credit Use and Carryover Periods

Lines 1, 2, 3, and 4, column (c) – Enter the prior year amounts (if any) from your 2004 form FTB 3534, Part I, Section B, column (e).

Lines 1, 2, 3, and 4, column (e) – Subtract the amount in column (d) from the amount in column (c). Enter the result in column (e).

Line 5, column (b) – Enter the amount from Part I, Section A, line 2.

Line 5, column (e) – Subtract the amount in column (d) from the amount in column (b). Enter the result in column (e).

Line 6, column (d) – Add the amounts in column (d). Enter the result in Part I, Section B, line 6, column (d). **Note:** The total amount in column (d) should equal the amount on Part I, Section A, line 5.

Line 6, column (e) – Add the amounts in column (e). Enter the result in Part I, Section B, line 6, column (e). **Note:** The total amount in column (e) should equal the amount on Part I, Section A, line 6.

Part II — JSF Property Credit

The JSF Property Credit is available to qualified taxpayers on 10% of the qualified costs paid or incurred on or after January 1, 2001, and before January 1, 2006, for acquiring, constructing, or reconstructing qualified property placed in service in California to manufacture a product for ultimate use in a JSF.

A Qualified Property

Qualified property is property that is described as any of the following:

- Tangible personal property that is defined as depreciable or amortizable under IRC Section 1245(a)(3)(A) for use by a qualified taxpayer primarily in qualified activities to manufacture a product for ultimate use in a JSF;
- The value of any capitalized labor costs that are direct costs as defined in IRC Section 263A allocable to the construction or modification of qualified property.

Qualified property does not include any of the following:

- Furniture;
- Inventory;
- Equipment used to store finished products that have completed the manufacturing process; and
- Any tangible personal property that is used in administration, general management, or marketing.

B Qualified Costs

Qualified costs are costs that satisfy **all** of the following requirements. Costs must be:

- Paid or incurred by a qualified taxpayer on or after January 1, 2001, and before January 1, 2006, for the acquisition, construction, or reconstruction of qualified property;
- Amounts upon which California sales or use tax was paid, either directly or indirectly by the qualified taxpayer; and
- Amounts properly chargeable to the capital account of the qualified taxpayer, except in the case of certain operating leases. See Part II, C, Special Rules for Leased Property.

In addition, qualified costs include the value of any capitalized labor costs that are direct costs as defined in IRC Section 263A allocable to the construction or modification of qualified property.

Costs Under Binding Contracts Entered Into Prior to 2001

If otherwise qualified costs are paid or incurred pursuant to a binding contract entered into before January 1, 2001, the contract cost must be prorated. In this situation, the qualified costs are determined by applying the ratio of costs actually paid (irrespective of the qualified taxpayer's method of tax accounting) prior to January 1, 2001, to the total contract costs actually paid in 2001.

For purposes of determining what amounts were actually paid prior to January 1, 2001, any contractual deposits and option payments are treated as amounts paid. Contract costs allocated to a period prior to January 1, 2001, are not qualified costs for purposes of the JSF Property Credit.

Example: On October 1, 2000, Corporation H, a qualified taxpayer, executes a contract to purchase five machines and ten computers that are qualified property for a total of \$100 (plus applicable sales tax). The credit was reflected on the bid that formed the basis of the contract and the contract was reduced by the amount of the JSF Property Credit allowed. Under the terms of the contract, Corporation H is required to make a nonrefundable \$20 deposit upon execution of the contract and pay the remaining \$80 upon delivery of the machines and computers. On May 1, 2001, the machines and computers are delivered and Corporation H pays the remaining \$80 due under the contract. In this example, the \$20 actually paid in 2000 will not be treated as a qualified cost, but the remaining \$80 paid in 2001 is a qualified cost.

Contracts that are replacement or successor contracts to contracts that were binding prior to January 1, 2001, also will be considered binding contracts in existence prior to January 1, 2001. However, if a successor or replacement contract also includes additional costs for constructing, reconstructing, or acquiring qualified property not described in the original binding contract, the additional costs may be considered costs paid or incurred on or after January 1, 2001.

A contract will be considered binding even if it is subject to a condition, such as forfeiture or cancellation. However, in the case of an option contract, if the option holder will forfeit an amount less than 10% of the fixed option price in the event the option is not exercised, then the option contract will not be treated as a binding contract under these rules.

C Special Rules for Leased Property

The following rules apply in the case of any qualified property that is leased by a qualified taxpayer:

- The JSF Property Credit is not allowed to the lessor (title-holder) of qualified property, whether or not the lessor is otherwise a qualified taxpayer. Only a lessee-user (renter or purchaser) can claim the JSF Property Credit on the leased asset.
- Lease agreements are treated as binding contracts for purposes of applying the binding contract allocation rules.
- Property leased under an operating (true) lease does not have to be chargeable to the qualified taxpayer's capital account, while property leased under a finance (capital) lease must be chargeable to the qualified taxpayer's capital account.

For property leased under an operating (true) lease, the lessor must pay the sales or use tax when the property is acquired. The sales or use tax paid by the lessor must be based on the lessor's acquisition price for the qualified property. **Example:** If the lessor pays \$100 for

an item of qualified property, plus \$7 (assuming the \$7 is the sales tax shown on the sales invoice) in California sales or use tax on that item, the lessee (qualified taxpayer) may claim the JSF Property Credit on the cost of \$100.

For property leased under a finance (capital) lease, the lessor or the lessee may pay the sales or use tax when the property is acquired by the lessee. The California sales or use tax paid by either the lessor or lessee must be based on the lessee's acquisition price. **Example:** On January 1, 2004, Corporation G, which is engaged in the equipment leasing business, purchases two items of qualified property for \$200. On January 1, 2005, Corporation G leases the two items of qualified property to Corporation F, a qualified taxpayer. The total cost under the terms of the finance lease is \$100, plus \$7 California sales or use tax. If either Corporation G (the lessor) or Corporation F (the lessee) pays the \$7 sales or use tax, then Corporation F would be allowed to claim the JSF Property Credit on the purchase price of \$100, assuming all other requirements for claiming the JSF Property Credit were met.

- The JSF Property Credit cannot be claimed for costs paid or incurred by a lessee who pays sales or use tax on the property to the lessor on a periodic basis, such as monthly ("pay-as-you-go") leases.
- For any lease treated as an operating lease, within 45 days after the close of the taxable year of the lessee for which the JSF Property Credit is allowable, the lessor should provide a statement to the lessee specifying the amount of the lessor's cost upon which sales or use tax has been paid in full by the lessor and the amount eligible for the credit. The lessee must retain a copy of this statement and make it available to the FTB upon request.

Determining Qualified Costs for Leased Property

The JSF Property Credit to be allowed to the lessee-user is computed using the lessor's original cost of the qualified property, which is generally determined using the rules under Part II, B, Qualified Costs.

- The JSF Property Credit may only be claimed for the taxable year the qualified property is placed in service in California.
- The lessor's original cost basis is generally equal to the lessor's cost for depreciation purposes (less any California sales or use tax paid that is included in such cost basis). However, only amounts upon which California sales or use tax has been paid, either directly or indirectly by the lessor, plus any capitalized direct labor costs as defined in IRC Section 263A, qualify for the JSF Property Credit and may be included in the lessor's original cost.
- The original cost to the lessor of the qualified property must be reduced by the amount of any original cost used in computing the JSF Property Credit by any predecessor lessee in a previous lease of the qualified property. However, this reduction is not required to the extent that a predecessor lessee was required to recapture the JSF Property Credit.
- If a lessor acquires qualified property that was previously leased from another lessor in a transaction that is not treated as a sale for California sales or use tax purposes, the original cost to the new lessor for JSF Property Credit purposes must be reduced by the amount of the original cost used in computing the JSF Property Credit by any predecessor lessee.

Generally, this will result in the new lessor having no original cost for JSF Property Credit purposes unless the new lessor pays California sales or use tax on the acquisition.

D Definitions

The following definitions apply for purposes of credit qualification:

Qualified Activities – Manufacturing, processing, or fabricating of property, beginning at the point at which any raw materials are received by the qualified taxpayer and introduced into the process and ending at the point the tangible personal property is in its completed form, including packaging, if required.

Fabricating – Making, building, creating, producing, or assembling components or property to work in a new or different manner.

Manufacturing – The activity of converting or conditioning property by changing the form, composition, quality, or character of the property for ultimate use in a JSF. Manufacturing includes any improvements to

tangible personal property that result in a greater service life or greater functionality than that of the original property.

Primarily – The qualified property is used 50% or more of the time in a qualified activity.

Process – The period beginning at the point at which any raw materials are received by the qualified taxpayer and introduced into the manufacturing, processing, or fabricating activity and ending at the point at which the manufacturing, processing, or fabricating activity has altered tangible personal property to its completed form, including packaging, if required. Raw material is considered introduced into the process when the raw materials are stored on the same premises where the manufacturing, processing, or fabrication activity is conducted. Raw material stored on premises other than where the manufacturing, processing, or fabrication activity is conducted is considered not introduced to the manufacturing, processing, or fabrication process.

Processing – The physical application of materials and labor necessary to modify or change the characteristics of property.

E Credit Carryover and Limitation

Any part of the JSF Property Credit exceeding the tax liability in the taxable year may generally be carried over for a maximum of eight years, or until exhausted, whichever comes first. In no event can the credit be carried back and applied against a prior year's tax.

F Credit Recapture

If within one year from the date the property is first placed in service in California, the qualified property for which the JSF Property Credit was allowed is:

- Removed from California;
- Used primarily for a nonqualifying purpose;
- Disposed of to an unrelated party as defined in IRC Sections 267, 318, or 707; or
- Acquired by a lessee (or acquired by a party related to the lessee) that is being leased by such lessee;

then the JSF Property Credit must be recaptured. The credit is recaptured by adding the amount of credit previously claimed to the qualified taxpayer's tax liability for the taxable year in which the recapture event occurs. Any JSF Property Credit carryover should first be reduced to the full extent before adding any recaptured credit to the current year tax liability. Any recapture amount remaining after the reduction of the carryover should be added to tax.

If the recapture event occurs in the same taxable year in which the qualified property is first placed in service, then no JSF Property Credit can be claimed for that property.

For more information on the JSF Credits, refer to R&TC Sections 17053.36 and 17053.37 for Personal Income Tax Law and Sections 23636 and 23637 for Corporation Tax Law.

Part II — JSF Property Credit Line Instructions

Section A Credit Computation

Line 1, column (a) – Provide a description of the property. Attach additional schedule(s) if necessary.

Line 1, column (b) – Enter "N" if the property was not leased. If the property was leased, enter "Y" and see Part II, C, Special Rules for Leased Property.

Note: If you are the lessor of the qualified property, you do not qualify for the JSF Property Credit.

Line 1, column (d) – Enter the amount of California sales or use tax paid. In general, the California sales or use tax must be paid (directly or indirectly) on the qualified costs (except for costs paid or incurred on certain direct capitalized labor). See Part II, B, Qualified Costs.

Line 1, column (e) – For leased property, the lessee must enter the lessor's original cost less any California sales or use tax paid by the lessor. **Note:** "Pay-as-you-go" leases do not qualify for the JSF Property Credit because the lessor has not paid California sales or use tax on the lessor's acquisition of the property. See Part II, C, Special Rules for Leased Property.

Line 1, column (f) – Enter the total amount of capitalized direct labor costs associated with the qualified property. Qualified capitalized direct labor costs are all direct costs of labor (as defined in IRC Section 263A and regulations thereunder) that can be clearly identified or associated with the construction, modification, or installation of qualified property. Indirect capitalized labor costs (such as training costs, officers' compensation, pension costs, and employee benefit expenses) cannot be claimed.

Line 1, column (h) – Only costs that are properly chargeable to a qualified taxpayer's capital account may be claimed as qualified costs; therefore, appropriate adjustments should be made to the qualified cost of the property for purposes of the JSF Property Credit. Enter the total of accelerated deductions such as the IRC Section 179 deduction and the business expense deduction allowed for Enterprise Zones, LAMBRAAs, and the TTA claimed for each item of property. Also, enter any unrecognized gain resulting from an IRC Section 1031 or 1033 exchange of this item for the item being replaced.

Line 5 – Enter the total available credit carryover from prior year(s).

Line 7 – The amount of this credit that you can claim on your tax return may be limited further. Refer to the credit instructions in your tax booklet for more information. These instructions also explain how to claim this credit on your tax return. Use credit code number **216** when you claim this credit.

Credits generated by a pass-through entity must be determined at the entity level. Once the amount of total credit has been determined by the pass-through entity, it is then passed through to the shareholders, beneficiaries, partners, or members and claimed on each recipient's individual or entity tax return.

Section B Credit Use and Carryover Periods

Lines 1, 2, 3, and 4, column (c) – Enter the prior year amounts (if any) from your 2004 form FTB 3534, Part II, Section B, column (e).

Lines 1, 2, 3, and 4, column (e) – Subtract the amount in column (d) from the amount in column (c). Enter the result in column (e).

Line 5, column (b) – Enter the amount from Part II, Section A, line 4.

Line 5, column (e) – Subtract the amount in column (d) from the amount in column (b). Enter the result in column (e).

Line 5, column (d) – Add the amounts in column (d). Enter the result in Part II, Section B, line 6, column (d). **Note:** The total amount in column (d) should equal the amount on Part II, Section A, line 7.

Line 5, column (e) – Add the amounts in column (e). Enter the result in Part II, Section B, line 6, column (e). **Note:** The total amount in column (e) should equal the amount on Part II, Section A, line 8.

Section C Credit Recapture

Any JSF Property Credit amounts previously claimed must be added back to your tax liability if any of the events listed below have occurred within one year of the date the qualified property was placed in service in California. The recapture codes listed to the left of each event that caused recapture of the JSF Property Credit should be used to complete Section C, line 1, column (b), for each item of qualified property for which the credit must be recaptured.

Recapture Code	Event Causing Recapture
1	Qualified property is physically moved out of California.
2	Qualified property is primarily used in a non-qualified activity. See Part II, A, Qualified Property, for more information on qualified activities.
3	Qualified property is sold or otherwise transferred to an unrelated party as defined in IRC Section 267, 318, or 707.
4	Qualified leased property is acquired by the lessee-user (or party related to the lessee-user) who claimed the JSF Property Credit for such leased property prior to acquiring the property.

Line 1, column (a) – List each item of qualified property that caused recapture.

Line 1, column (b) – Enter the recapture reason code from the list in the previous column that corresponds to the event that caused recapture of the JSF Property Credit.

Line 1, column (c) – Enter the amount of recapture for each item of property entered in column (a).

Any JSF Property Credit carryover should first be reduced to the full extent before adding any recaptured credit to the current year tax liability. Any recapture amount remaining after the reduction of the carryover should be added to tax and reported here (Section C, line 1, column (c)). See the instructions for line 2 below for where to report the recapture amount(s) on your California tax return.

Line 2, column (c) – Add the amounts in column (c). Enter the total here and on your California tax return or schedule as follows:

- Form 100, Schedule J, line 5;
- Form 100S, Schedule J, line 5 and Schedule K-1 (100S), line 23. See note following;
- Form 100W, Schedule J, line 5;
- Form 109, Schedule K, line 4;
- Form 540, line 36;
- Form 540NR, line 45;
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Schedule K (565), line 22 and Schedule K-1 (565), line 22; or
- Schedule K (568), line 22 and Schedule K-1 (568), line 22.

Indicate that you included the JSF Property Credit recapture on the tax return by writing "FTB 3534" in the space to the left of the amount on the schedule or form.

Shareholders, beneficiaries, partners, and members of S corporations, estates, trusts, and partnerships must recapture the portion of the JSF Property Credit that was previously claimed. S corporations, estates, trusts, and partnerships must show the recapture amount for each shareholder, beneficiary, partner, or member on Schedule K-1s (100S, 541, 565, or 568) as provided above.

Note: For an S corporation, the recapture amount for the shareholder(s) will differ from the amount recaptured by the S corporation on Form 100S, Schedule J, line 5, since S corporations can only claim 1/3 of the JSF Property Credit.

Where to Get Tax Forms and Publications

By Internet – You can download, view, and print California tax forms and publications from our Website at www.ftb.ca.gov.

Information about other state agencies can be accessed through the State Agency Index located on the California State Website at www.ca.gov.

By phone – To order California tax forms and publications, call our automated telephone service. To order a form:

- Refer to the list in your tax booklet and find the code number for the form you want to order.
- Call (800) 338-0505 and follow the instructions.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

In person – Many post offices provide free California tax booklets during the filing season. Most libraries and some quick print businesses have forms and schedules for you to photocopy (a nominal fee may apply). **Note:** Employees at libraries, post offices, and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

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